

To the Members of the California State Senate:

I am returning Senate Bill 451 without my signature.

Last year I signed AB 1969 (Yee, Chapter 731, Statutes of 2006), which created standard contracts for the purchase of renewable power generated by public water and wastewater agencies. Subsequent to the enactment of AB 1969 and using their existing authority, the California Public Utilities Commission (CPUC) expanded this program to include other smaller scale renewable electricity generators.

The purpose of signing AB 1969 and the CPUC actions was to create a standard program for the purchase of clean and renewable electricity which will promote additional investment and development of these projects. Although SB 451 intends to appropriately expand this concept to all renewable electricity generators, it contains provisions which have the unintended consequence of actually stifling further development in this arena.

An analysis of this bill, overlaid by existing statute and the current regulatory scheme adopted by the CPUC, suggests that the provisions of this measure, if signed, would have the effect of allocating the entirety of the Renewable Energy Credits created by a renewable electricity generator to the Investor-Owned Utility that buys their electricity. As a result, environmental attributes such as air quality and greenhouse gas reductions would accrue solely to the utility, even if a renewable generator exports only a small part of their total generation to the utility.

Because of past and present efforts to improve air quality and reduce greenhouse gas emissions, markets for toxic air contaminant and carbon emission reduction credits are currently being developed. The value and availability of these credits plays an important role in the analysis undertaken by a renewable energy developer to determine whether, and at what size, a project is financially viable.

The provisions of this bill would automatically transfer ownership of these credits once a renewable generator sells any amount of electricity to the Investor-Owned Utility. A proportional share, if correctly implemented, could be justified. But as written, this bill removes a significant financial incentive for renewable generators and would force them to downsize or abandon their projects.

Sincerely,

Arnold Schwarzenegger